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UNCLAS SECTION 01 OF 02 MADRID 000901

SIPDIS

STATE FOR EUR/WE, EEB/IFD/OMA
COMMERCE FOR 4212/D.CALVERT
TREASURY FOR OIA/OEE:R.JOHNSTON
ENERGY FOR PIA:K.BALLOU

E.O. 12958: N/A
TAGS: [ECON](#) [EINV](#) [ELAB](#) [ENRG](#) [SP](#)
SUBJECT: MADRID ECONOMIC WEEKLY, AUG 31-SEPT 4

REF: A. MADRID 852
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Zapatero Says Income Taxes Will Not Be Increased

1.(U) In an August 31 press conference after meeting with Sweden's Prime Minister in Stockholm, President Zapatero said the GOS had no plans to raise personal income or corporate taxes. He acknowledged, however, that the GOS would seek to gradually increase capital gains taxes from the current rate of 18 percent. Zapatero also announced that the GOS might cancel a 400-euro per person income tax deduction introduced two years ago. Reiterating that any tax increases would be "moderate and temporary," Zapatero insisted that the GOS will restore budgetary stability and meet the EU's requirement of a deficit no larger than 3% of GDP by 2012. (Comment: Others have expressed doubt that the GOS will be able to get the deficit down in time.) Zapatero's assurance followed a controversy sparked by Development Minister Jose Blanco's statement during an interview the previous week that the GOS wanted to increase income taxes for those earning more than 50,000 euros a year. Blanco's office later retracted his statement. (El Pais, 8/31; All Media, 9/1)

GOS Spending Nearly Double Its Revenues, Plans to Cut Ministerial Spending

2.(U) From January through July, the GOS took in 58 million euros and spent 108 million, for a deficit around 8% of GDP during the period. Spending was up 22% from the same period last year, and revenues were down 26%. One press report said that Central Bank analysts now expect the combined deficit of all levels of the public sector to be between 11% and 12% this year, well above the Economy Ministry forecast of below

10%. Zapatero is expected to announce on September 13 a plan that will cut 15 billion euros in spending from the Interior, Housing, Justice, and Public Administration ministries. (El Confidencial, 9/1 and 9/2; El Pais, 9/4; Embassy calculation)

Unemployment Rate Hits 18.5% in July, More Jobless Registered in August

3.(U) Spain's unemployment rate reached 18.5% in July, up from 18.2% in June, according to Eurostat. Spain continues to have the EU's highest rate, nearly double the EU average of 9.5%. Separately, the Labor Ministry reported that the number of registered unemployed rose by 85,000 in August. Comment: While this figure almost always rises in August and the increase may reflect an increase in the size of the labor force, the unemployment rate is expected to continue rising in the fall. (El Pais, 9/2; ABC, 9/2; El Confidencial, 9/2)

GOS Agrees to Extend Supplemental Unemployment Benefits

4.(U) Under strong pressure from labor and leftist political parties, the GOS agreed to expand eligibility for the six-month 420-euro supplemental unemployment benefit announced August 13 (reftels). Once the congress approves, those whose regular unemployment benefits expired on or after January 1 will be eligible, not just those whose benefits expired on or after August 1, as originally announced. The GOS also agreed to remove the condition that unemployment be above 17% in order to consider extending the supplemental benefits beyond the six-month period. The eligibility change could add another 300,000 beneficiaries at an estimated additional cost of 700 million euros. (Cinco Dias, 9/3)

Ford Seeks to Lay Off 600 Employees

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5.(U) Ford announced that it plans to obtain authorization to lay off 600 of its 7,100 employees at its Valencia plant. It will start the formal consultation process September 3, in accordance with Spanish law. Ford has requested temporary furloughs four times within the last twelve months. Unions have spoken out against the request, calling it unjustifiable for economic or production reasons. (Expansion 9/3, Europa Press, 9/3)

Prices Rise Slightly in August, Still Below Last Year's Level

6.(U) The National Statistics Institute's preliminary August inflation estimate suggests that prices rose by some 0.4% during the month. The headline year-on-year rate was -0.8%, up from July's -1.4%. Year-on-year rates are expected to remain negative for a few more months while they still include the impact of the late-2008 oil price decline. The final August rate will be released next week. (El Pais, 8/29, Embassy calculation)

Iberdrola Expects \$500M in U.S. Stimulus Funds for Wind Power Projects

7.(U) Out of \$502 million in stimulus funds for renewable energy projects announced by the Treasury Department September 1, \$294 million went to already-completed Iberdrola Renewables wind farm projects. The company has applied for another \$200 million in the next phase of disbursements for projects currently under construction. It has over 3,000 MW of installed wind capacity in the U.S. -- over 10% of the U.S. total -- and employs 800 people. Acciona, the world's second largest wind power producer after Iberdrola, also has applied for stimulus funds. (Treasury press release, El Confidencial, Iberdrola Renewables statement)

CHACON